

# GEORGIAN Week **Business**

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## **BENDUKIDZE QUILTS CABINET**

### **Will his Influence Remain?**

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The most controversial figure in Georgia's political landscape over the last four years, Kakha Bendukidze, ex-State Minister for Coordination of Economic Reforms, has now moved to a more shadowy place. In the latest cabinet reshuffle he lost his old post, only to move to the State Chancellery as its head of administration.

Thanking the outgoing ministers, the economic team among them, President Saakashvili said: "I want to thank Kakha Bendukidze, who has implemented many difficult and unpopular reforms in a very difficult period." His record speaks for itself.

A Georgian-born and Moscow-based business heavyweight, Bendukidze was invited to Georgia by Saakashvili's first Prime Minister Zurab Zhvania in 2004. The newcomer provoked immediate criticism from locals – he attacked journalists for asking him 'weak' questions, stated publicly that he would put everything up for sale except honour, almost never appeared at government meetings in a suit and tie and, most offensive and irritating for many people, frequently used Russian slang terms and insults in public comments and interviews.

Bendukidze left Tbilisi in his green years. After graduating from the Department of Biology of Tbilisi State University in 1977, he left for Russia in 1980 to continue his studies at the Postgraduate School of Moscow State University. Following several years of work as a biologist, he started a small business under the name *Bioprocess*. In the early 90s, during the voucher privatization campaign, Bendukidze became a shareholder of UralMash and was later promoted to Director-General. He also acquired shares in the Submarine Nuclear Technical Repair Plant and ended up in the list of Russian millionaires and a close ally of President Putin.

Before he rose to the Cabinet, Georgian people first saw him at Georgia-Russia business forums. He was more polite then and did not say much. When he returned as a politician Bendukidze was introduced to the Georgian public as a 'skilful manager.' His proponents used to remind everyone that Bendukidze had a good deal of money, and would not hunt laris in Georgia. To begin with even Bendukidze's stark style was acceptable for some, as he was a man of business, and expectations were high that he could do a good job. But over the time, Bendukidze became a continuous target for harsh criticism.

One of Bendukidze's most vocal critics was famous Georgian economist Vladimer Papava. Now an Independent Member of Parliament, Papava constantly condemned Bendukidze's initiatives even while he was a member of the ruling National Movement-Democrats: he voted against the establishment of Free Industrial Zones and slammed Bendukidze for privatizations which usually favoured Russian investors. Specifically, Papava negatively evaluated the sale of Georgia's electricity distribution system to RAO YES, and the sales of Georgian gold and copper mining and processing companies and a Georgian private bank (United Georgian Bank) to mostly state-owned Russian companies. He identified the greatest danger in the efforts of Gazprom, Russia's gas giant, to gain control of the gas pipeline between Armenia and Georgia.

Papava disapproved government's economic reforms at large. "if we consider the government's economic agenda, we see movement in three directions: north, nowhere and east," he said. Papava's counterpart, Soso Tsiskarishvili went even further and coined a special term to explain Bendukidze's economic vision - 'Bendunomics.' According to Tsiskarishvili, 'Bendunomics' is characterized by "pseudo-liberalism, destruction of state institutions, pseudo-privatization, giving a green light for Russian capital etc."

Tsiskarishvili comments: "He [Kakha Bendukidze] distorted the major principles of a market economy in Georgia and his privatizations lacked transparency. It was unacceptable to pick the winner of tenders at 3-4 at night in the private chambers of the chancellery without adherence to the rules." For Tsiskarishvili, Bendukidze is "the most successful government member, not in terms of state interests but his personal gains."

The expert slams Bendukidze, first of all, for abolishing the AntiMonopoly Service. In his opinion, this is inadmissible when building democracy as market principles are ignored. "He [Bendukidze] has attempted many times to abolish the concept of strategic assets, like pipelines and the water supply system. He has not achieved that so far, but the issue is still open for him. He has no shame and will manage the state chancellery with ease to achieve his goal. PM Lado Gurgenidze will not be able to stop him," Tsiskarishvili says.

So the removal of Bendukidze, who is disliked by local experts and opposition-minded people alike, was in high public demand. But will his influence on the country's economic reforms diminish? This is the key question now. For Davit Gamkrelidze, leader of the New Rights Party, the question has a clear answer. With this change, Bendukidze is "becoming stronger as he is now in charge of the whole chancellery, as well as economic direction," he told interpressnews.

Advocates of Bendukidze note that he achieved some benefits, such as privatization of state-owned land, streamlining licensing and regulation and introducing a one-stop principle. During 2004-2007, under his leadership, Georgia became the top-reforming country in the world, according to the World Bank's Doing Business report. In particular, Georgia jumped from 137th to 18th on the annual Ease of Doing Business rating, ahead of Germany and France. But the labour code initiated by Bendukidze has been less

acceptable for many. The code is regarded as overly liberal, granting employers excessive rights. People are primarily irritated because the law removes employers' obligations to pregnant women, considering them less useful resources.

Kakha Bendukidze is the author of a new scheme of financial sector regulation which is partly copied in the innovative legislative package of Lado Gurgenidze. Some new norms developed by Bendukidze have already been implemented. Among these is the freeing of brokers to trade stocks outside the stock exchange platform. Changes have been made to the bank regulations as well. Registration and licensing procedures have been simplified. Foreign companies can buy a 10% share in Georgian banks without needing the approval of the NBG. Other Bendukidze reforms are also in the pipeline. The government is planning to implement demutualization, under which a brokerage company which is a member of the Stock Exchange will no longer have to hold shares in the Stock Exchange, and vice versa. The government is also working on legislative changes which will allow the public trading of shares in the Stock Exchange itself. Only brokers which hold shares in the Exchange have the right to trade them now.

Analysts, however, warn that these liberalizations will result in a weaker NBG. "The only structure which was independent, professional and a guarantee of confidence for international financial institutions has finally been destroyed," Soso Tsiskarishvili complained. Due to the similarity in economic vision between Gurgenidze and Bendukidze, the latter's critics do not see a bright future for Georgia.

Gurgenidze and Bendukidze will now be in charge of the new government programme United Georgia without Poverty, along with the new economic team. The programme intends to use one third of the budget for social needs and identifies agrarian, financial and energy sectors as the main spheres of economic growth. But the Georgian political scene, and the future of Bendukidze and his reforms, may change dramatically as a result of the forthcoming parliamentary elections. Whether it does so has yet to be seen. But how well the new programme works may become the deciding factor, as spring draws ever closer.